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RUEHLO/AMEMBASSY LONDON 0125  
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UNCLAS SECTION 01 OF 02 ULAANBAATAR 000267

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SUBJECT: New Minister of Industry and Trade Seeks U.S. Help on  
Cashmere, Leans Toward U.S. Coal and Uranium Firms

Ref: A) Ulaanbaatar 0265, B) Ulaanbaatar 0238

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CAUTION: CONTAINS PROPRIETARY INFORMATION.

¶1. (U) This an action cable for USTR. See action requested in para  
¶5.

¶2. (SBU) SUMMARY: Newly appointed Minister of Industry and Trade Ts.  
Davaadorj invited Charge over to press for a favorable reply to  
Mongolia's request for a five-year extension of its export tariffs  
on cashmere. He also encouraged Peabody Energy's involvement with  
developing the important Tavan Tolgoi coal mine and suggested that  
U.S. firms should participate in the extraction of the country's  
uranium reserves. Davaadorj pushed for a Free Trade Agreement,  
asserting it would help Mongolia balance trade with its giant  
neighbors, China and Russia. The two also exchanged views on the  
Generalized System of Preferences (GSP) and tourism development. END  
SUMMARY.

¶3. (SBU) On May 2, Charge, accompanied by Economic/Commercial  
Officer and FSN interpreter, paid an introductory courtesy call on  
recently elevated Minister of Industry and Trade Davaadorj (Note:  
Ref A provides background on Davaadorj's appointment, local  
assessments, and bio information). Other attendees from MOIT  
included Director General for Trade Enkhbold, MOIT Americas Desk  
Officer Munkhjargal and B. Zoltuya, Senior Officer of the Trade and  
Economic Cooperation Department at MOIT. Except for brief  
interludes with his staff, the Minister spoke entirely, if sometimes  
haltingly, in English during the hour-plus meeting.

Minister Seeks Favorable USTR Reply  
to Cashmere Extension Request  
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¶4. (SBU) Minister Davaadorj said he had accelerated the timing for the meeting because the USG had not yet responded to the Ministry's request for support on its WTO application to allow Mongolia to extend its export tax on cashmere for another 5 years. He said the waiver would help keep cashmere -- which he called his country's only major "brand" product -- from being destroyed by China's predatory import practices at the expense of Mongolia's nomadic herder community. (Note: Davaadorj may be playing the nationalist card here perhaps to justify a WTO exception. It should be noted that Mongolian herders sell to Chinese traders primarily because: a) the Chinese pay on the spot in cash; and b) often the Chinese traders are the only ones in a local market buying cashmere. Prices for cashmere are widely available largely due to USAID programs that have been operating for years to broadcast market information via FM Radio. Over the past few years some in the domestic industry have actually complained that Chinese traders are actually driving up the market price of raw cashmere to the benefit of Mongolian herders but at the expense of Mongolian traders and processors.)

¶5. (U) ACTION REQUESTED: Post understands this issue will be taken up at this month's WTO meeting (May 21 or 22) and would appreciate a prompt response to enable the Charge to answer the Minister's request. The issue was raised in early March during the Trade and Investment Framework Agreement (TIFA) discussions in Ulaanbaatar and there were subsequent email exchanges, but the GOM awaits a reply from USTR.

Encourages U.S. Participation in Coal, Uranium Mining  
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¶6. (SBU) Turning to mining, Minister Davaadorj expressed general support for the involvement of U.S. based Peabody Energy in developing Mongolia's world class Tavan Tolgoi coal mine. He said Peabody would be asked to play a "key role" in the project, including participating in a newly created "experts group" to advise the GOM as well as a "working group" that would set the terms of reference for the project itself. In addition, Davaadorj said rising uranium prices had raised interest in Mongolia's uranium deposits (see ref B), which seem significant but remain largely unexplored. The Russians had recently sent a delegation (see ref B) in an attempt re-assert their command of the sector and a general, non-specific memorandum had been signed, but he believed U.S. firms have extensive experience in handling and developing this important and sensitive commodity as well as meeting USG regulations and in dealing with the Russians.

¶7. (SBU) On a side note, Davaadorj told the Charge that [Speaker of the Mongolian Parliament] Nyamdorj's recent trip to Australian mines had helped alleviate the influential politician's suspicions of increased mining sector FDI while spotlighting the benefits derived from taxing mining industry profits.

TIFA and FTA to Help Balance China, Russia Trade  
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¶8. (SBU) The Minister also shared his thoughts on the recent TIFA talks, saying Mongolia's relationship with the U.S. helped his country maintain its economic independence while "synching" trade with its massive neighbors China and Russia. In this regard, he also sought forward movement on a Free Trade Agreement (FTA).

Developing Tourism and Using GSP  
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¶9. (SBU) The Charge said we would seek a reply to the Minister's WTO cashmere request, and he thanked MoIT for its support of Embassy and USTR GSP outreach efforts that followed TIFA in March. He encouraged the Minister to promote GSP opportunities more heavily in outlying aimag (province) areas. (Note: The Charge's trip a week earlier to the country's western most aimags revealed that few there had any inkling of the tariff-free export possibilities offered under GSP, and especially for handicrafts, which hold promise for increasing incomes in Mongolia's poorest areas.) The Charge noted

the Asia Society's Williamsburg Conference to be held in Ulaanbaatar in mid-June presented an excellent opportunity for Mongolians in both the public and private sectors to rub elbows with some senior influential Asian and American corporate and political figures. He said he would broach the idea with the organizers of allowing the display and sale at an appropriate venue and time of the very same handicrafts that might be exported to the U.S. tariff-free under the GSP Handicrafts agreement.

¶10. (SBU) Charge also encouraged Mongolia to do more to work with U.S. tour operators and investors in developing Mongolia's tourism industry, especially in preparation for the 2008 Beijing Olympics, which promises to bring thousands of potential tourists to Mongolia's doorstep, a quick two hour flight from Beijing. The Minister said he would refer this to the Ministry of Roads, Transportation, and Tourism, but noted he himself owns a tourism company.

Goldbeck